City Councilmember

Carl DeMaio

News Release

DeMaio Praises SDCERS Board for Adopting Key Pension Reform

Lowering the DROP Interest Rate to 3.54% Will Save Taxpayers Millions

FOR IMMEDIATE RELEASE
Friday, February 20, 2009

CONTACT: Erica Mendelson, 619-379-7468

SAN DIEGO –City Councilmember Carl DeMaio praised today's decision by the board of the San Diego City Employee Retirement System (SDCERS) to reform an extremely costly element of the controversial Deferred Retirement Option Plan (DROP) pension program.

"I applaud the Pension Board for taking an important step forward in reforming the city's financially-troubled pension system. While more reforms are needed in the pension system, the action taken today will save taxpayers millions," DeMaio commented.

Last week DeMaio released his "Million Dollar Circle" report that showed million dollar pension payouts under the DROP Program and six-figure retirements being made in the city's financially-troubled pension system.

The DROP program allowed city workers to "double dip" to bank retirement payouts at 8% compound interest for five years while continuing to draw a city paycheck. A total of **1774** individuals have more than **$333 million** in funds in DROP accounts – all earning a guaranteed 7.75% interest currently even though the pension system suffered significant investment losses last year.

DeMaio preferred that the SDCERS board adopt the change contingent on the outcome of negotiations with the city's labor unions – though pension officials reject the notion that the city's labor contracts bind their decisions.

Reforming the city's pension system will be key in the effort to balance the city's budget this year and restore long-term financial stability to the city. The City of San Diego's pension payment has increased **386%** since FY2000 – jumping from $30 million to $162 million last year. Factoring in recent investment losses the city's pension deficit now stands at $2 billion and the annual pension payment could spike up to $190-220 million in FY2011.

In his report last week, DeMaio noted that reducing the DROP interest rate from the current 7.75% guaranteed rate-of-return to an indexed rate of about 4% would save **$3.5 million** of the ARC and **$25-45 million** off the UAAL in FY 2011 – and would reduce the overall unfunded pension liability by roughly **$250 million** by FY 2012.

##